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SUBJECT: Farming In Belarus Still A Risky Business

Ref: 04 Minsk 1228

Classified by Ambassador George Krol for Reasons 1.4 (B,D)

11. (C) Summary: Poloff visited a "privatized" collective farm on July 7 to assess the progress made since the previous visit in July 2004. Financial loss, alcoholism, theft, laziness, and government interference remain big problems. The infrastructure has improved little while more money needs to be spent on renovation. Without good specialists, the owner is managing a farm and solely relying on the opinions and suggestions of the local State Control Committee. End Summary.

Bottomless Money Pit

12. (C) Poloff met Vladimir Lukonin on July 7 at his farm near Dzerzhynsk. Lukonin, a Minsk-based businessman, purchased the bankrupt collective farm in late 2003 following a government campaign to pressure businesses to purchase bankrupt farms. Poloff visited Lukonin's farm in July 2004 and saw the problems businessmen like Lukonin faced when purchasing the collectives (reftel). One year has passed, but Lukonin has seen few benefits and zero profit.

13. (C) Since July 2004, Lukonin has invested and subsequently lost USD 700,000. When he first purchased the farm, he had to merge his air-conditioning company with the bankrupt enterprise, meaning both budgets and revenues were combined. Most of Lukonin's air-conditioning profits go straight to financing the farm, which he referred to as a black hole or endless money pit. As a result, his Minsk-based business is teetering on.

Weak Infrastructure

14. (C) Poloff noticed little improvement in the farm's infrastructure. His water tower, just like the year before, still had a large hole in it with water shooting out under pressure. Repairmen were unable to stop the leak, so Lukonin loses hundreds, if not thousands of gallons of water per day. [Note: He probably pays a flat rate for water use and not per volume.] Lukonin still had not built a fence around his pastures to keep the cattle in. He priced a fence at USD 20,000, but decided it was

too expensive. When asked why he would not use cheap and efficient barbed wire, he said the workers would not like it because it would feel like a prison and not a farm. Therefore, he continues to pay workers to sit all day in a pasture to watch the cows. [Note: These people usually sleep or drink on the job.]

Poor Labor

15. (C) Lukonin employs 101 people and has only fired seven since he bought the place. Alcoholism, theft, and laziness are still large problems. He has been unable catch the people stealing his fuel, but they managed to steal enough that the SCC took notice and brought Lukonin to court to answer for the theft. [Note: The government heavily subsidizes fuel to farms and audits the amount used.] His employees continue to drink, but Lukonin is paying for some of the workers' alcohol rehabilitation programs.

16. (C) Lukonin told Poloff his farm would not make a profit until workers change their mentality. After a year, he has reached the point where the workers and villagers are no longer afraid of him and speak to him willingly. Several times during the trip, Lukonin would scold workers who were just standing around and not doing much of anything. One man, who was collecting hay from the field and bringing it to the barn, saw rain in the horizon. Rather than hurrying to collect the rest of the hay before it got wet, he shut off the tractor and went home.

Government Interference

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17. (C) After large-scale theft and several years of neglect, most of Lukonin's cow barns are in horrible shape and cannot house livestock. However, he still pays three percent of the barns' worth in taxes per year, which is expensive since the buildings' over-quoted, government balance-sheet price per building is USD 100,000. Lukonin would like to build new ones, but he would have to get permission from the local State Control Committee (SCC) and would have to invest at least USD 100,000 just to get the plans approved and moving. Lukonin would also have to get permission from the SCC to tear down the dilapidated cow barns, even though, on paper, they are his private property. In the end, Lukonin decided to renovate the buildings, which is not much cheaper.

18. (C) The SCC was waiting for Lukonin at his office after the farm tour. It was their third visit in a week and they had already made themselves at home, rummaging through his farm's paperwork and making sure that the average wage was high enough. The SCC often fines Lukonin, constantly interferes in his farm's activities, and often tells him what to do. However, Lukonin admitted that he sometimes appreciates the SCC's "suggestions" because he is not a farming specialist.

Community Support

19. (C) Lukonin has been involved in community service. He has sponsored free concerts for the residents and provided refrigeration for the local grocery store. During Victory Day, he arranged transportation for the village's veterans to attend festivities in Minsk and in 2004 financed an excursion trip throughout Belarus for the village's children and teenagers. His current project is renovating apartments for the farm's workers and in 2007 he will begin building five new homes a year as part of Lukashenko's rural revival and development plan.

Comment

110. (C) Lukonin has made many small improvements, such as buying newer equipment and remodeling buildings, but few

economic advancements have been made. Government interference and restrictions, unwilling labor, and Lukonin's lack of expertise in agriculture all greatly contribute to the farm's failing status. On July 22, coordinator for the CNFA Lucy Sokolovskaya opined that Lukonin's farm would not improve without more specialists who know how to manage a farm. Other businesses, such as casinos and a major cell phone company, have purchased farms and reportedly make a decent profit, but these companies have practically unlimited sources of revenue, legal and possibly illegal, that they can afford to throw away. [Note: Some sources have speculated certain businesses use their new farms to launder ill-gotten money.] Lukonin seems to have the money now, but if he continues to lose USD 15,000 a month, he will not have a business or a farm for much longer.

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